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STATE FOR EAP/CM AND EEB/OMA, TREASURY FOR OASIA

E.O. 12958: N/A
TAGS: ECON EFIN EINV ETRD HK CH
SUBJECT: Hong Kong Market Report: New Year's Gifts for minibond Holders

¶1. Summary: The Hong Kong Securities and Futures Commission announced that non-bank financial institution Sun Hung Kai Investment Services Ltd. would buy back all its outstanding Lehman Bros. minibonds from eligible clients at the original investment price. Hong Kong Chief Executive Donald Tsang promised the government would hire an additional 8000 people by summer 2009 and floated a proposal to create a Chapter 11-style bankruptcy process in Hong Kong. The Hong Kong Monetary Authority and the People's Bank of China signed a 200 billion renminbi swap agreement touted to increase short-term liquidity for Hong Kong banks in mainland China and Mainland banks in Hong Kong. The Hang Seng Index lost 5.1 percent this week after losing 7.8 percent last week. HSBC shares were up slightly on Friday in weak trading but finished the week down 5.4 percent at 57.9 HKD per share. The Hong Kong Stock Market will be closed through January 28 for the Lunar New Year holiday. End Summary.

¶2. The Hong Kong Securities and Futures Commission (SFC) brought an early Chinese New Year gift to a small segment of Lehman minibonds investors on Thursday, January 22. SFC Chief Executive Officer Martin Wheatley announced that Sun Hung Kai (SHK) Investment Services Ltd. would buy back all outstanding Lehman Brothers minibonds bought by eligible clients at the original investment prices. Each eligible client who accepts the offer will be required to sign a release and waive any future claims against SHK Investment Services.

¶3. Wheatley professed to be pleased with the result, saying it served "the best interests of the investors". The SFC estimated that about 310 investors would get back a total of HKD 85 million within 30 days of accepting the terms. After thorough investigation, the SFC reportedly raised four areas of concern with SHK Investment Services on its distribution of Lehman Brothers minibonds, including the adequacy of product due diligence, retail sales staff training, risk assessment and investment advice record-keeping. SHK Investment Services acknowledged the seriousness of these concerns, but did not admit any liability or wrongdoing.

¶4. The SFC also issued a reprimand to SHK Investment Services for its lax internal controls related to the sales of Lehman Brothers minibonds since 2002. SHK Investment Services was one of three licensed non-bank financial institutions that distributed the Lehman Brothers minibonds. Grand Cathay Securities Hong Kong Ltd. and KGI Asia Limited also distributed these structured products.

¶5. A Hong Kong Economic Journal editorial (January 23) praised the SFC's efforts and suggested the Commission use the same approach to investigate banks involved in the distribution of Lehman minibonds. The editorial noted that the SFC already has the tools necessary to force the distributors of financial products to repurchase them if marketing malpractice is discovered. The HKMA has referred 280 cases of alleged bank mis-selling to the SFC for further investigation since October 2008.

The HKG Announces Plans to Create Jobs, Ease Bankruptcy

¶6. Chief Executive Donald Tsang and Financial Secretary John Tsang told the press January 22 that the government would create 8,000 new jobs this summer with 5,500 new positions in the Hospital Authority and 1,290 positions offered by Ocean Park. CE Tsang also encouraged large corporations in Hong Kong to provide internships for recent graduates. Hong Kong's unemployment rate increased to 4.1 percent for the three months ended December 2008. CE Tsang has publicly warned that the number is likely to go up as the economic downturn continues and thousands of new graduates enter the workforce this spring.

¶7. The Chief Executive also announced that the government would study the possibility of creating a Chapter 11-like process to allow Hong Kong companies to restructure after a bankruptcy proceeding. Tsang did not want to raise expectations, noting that it would take at least one year of consultations before legislation could be proposed. Hong Kong currently does not have a mechanism to allow debt restructuring following a bankruptcy proceeding.

HKMA - PBOC Agree to Swap

¶8. Hong Kong Monetary Authority (HKMA) Chief Executive Joseph Yam signed an agreement with People's Bank of China (PBOC) Governor Zhou on Tuesday, January 20 for a 200 billion renminbi currency swap over a period of three years, a measure to increase short-term liquidity for the Mainland operations of the Hong Kong banks and Hong Kong operations of Mainland banks. The move will also promote financial stability and support the development of renminbi denominated trade transactions in Hong Kong, said the HKMA.

The Numbers

¶9. HIBOR overnight and one-week were 0.15 percent; one-month, 0.35 percent, three-month, 0.95 percent. The Hang Seng Index closed Friday at 12578.60, down 79.39 points or 0.63 percent with a trading volume of just HKD 33.7 billion. The Hang Seng Index lost 5.1 percent this week, after losing 7.8 percent last week. The Hong Kong Stock Exchange will be closed through Wednesday, January 28 for the Lunar New Year holiday.